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**"The Psychology of Loss
Adjustments"**

AN ADDRESS

**Delivered before the One Hundred and
Twenty-fourth Meeting**

OF

The Insurance Society of New York

ON

January 25th, 1916

BY

**Mr. George R. Branson, President
The Williamsburgh City Fire Insurance Company**

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Mr. Chairman and Gentlemen of the Insurance Society.

As an after-dinner speaker, somewhat flushed in temperament and language by the influence of the edibles and potables just consumed, I have never been considered as particularly successful, so you may imagine with what temerity I approach a discourse which comes in direct competition with the cravings of empty stomachs. This occasion reminds me of my similarity in position to that of the Baptist choir of Riverhead, the county seat of my home county of Suffolk, Long Island, which formerly sang Sunday afternoons in the county jail there, to which singing objection was raised by the prisoners on the ground that it was not included in the sentence. The analogy is in one respect inapropos and defective, as you have at least the privilege of leaving if you do not like the singing.

Sometime last year, acting as Recruiting Sergeant of the Lecture Committee of the Insurance Society, the Secretary of the Loss Committee assigned to me the privilege—or shall I call it obligation—of preparing a paper or essay on a subject which he termed the “Psychology of Loss Adjustments.”

For some little time I was in doubt whether the subject given was not one premeditatedly designed to afford me an opportunity to expose to the Insurance Society, and particularly to my colleagues, a conceded lack of real knowledge on the subject of loss adjustments. I have, however, concluded that the subject was chosen so that I might be accorded a wide range and not be held down to a limited field of discourse. A limited field of discourse is my pet aversion; in fact, nothing is more irritating to me than to be requested to confine my remarks to the subject matter. I never feel friendly to the man who so directs me, and always regard him with even less favor than I do the Judge, who, in stentorian tone, directs the witness to speak up so that the twelfth juror may hear what he has to say.

In order to find out with reasonable precision what my discourse really was to be about, I was compelled to have recourse to the dictionary. For doing this, I felt somewhat apologetic—even to myself—until I happened one day to notice our good friend, the Chancellor of Syracuse University, doing the

same thing. Upon inquiring what manner of word it was that would require *him* to use a dictionary for elucidation, I found that he was engaged in obtaining the correct definition of the word "Chancellor." The relief which this afforded me was obvious. I thereupon approached the subject of this discourse with somewhat more confidence than I had at the outset, and I feel fairly justified in defining it as the personal equation in adjustments, or the relationship of the human mind to all interior, exterior and ulterior phases of loss adjustments. It may also be more particularly defined as a study of the relationship of the adjuster to any person or thing with which he is brought in contact in the conduct of his profession.

I have divided my talk to you into the several heads which naturally present themselves:

- (1) The Relation of the Adjuster to the Public.
- (2) The Relation of the Adjuster to the Assured.
- (3) The Relation of the Adjuster to his Principal.

While each of these relations is in many respects apart and distinct from the others, they still are so closely interwoven at the points of contact as to render it difficult to wholly separate discussion of any one so that it will not overlap the discussion of the other two.

ON THE RELATION OF THE ADJUSTER TO THE PUBLIC.

Under this head come three sub-divisions:

Non-discrimination.

Prevention of further fire waste.

Co-operation with public officials for the prevention of crimes directed particularly against Insurance Companies.

By its very nature insurance is, or should be, a business of discrimination, but not of unfair discrimination. Unfair discrimination is forbidden by law, but the statute is generally assumed as having only to do with rates and cost of acquisition of business. As I read it, the law is also intended to eliminate favoritism in adjustments. Jew or Gentile, black or white, of the four hundred or of the four million, the side street tradesman or the drygoods merchant prince, the top floor sweater or the industrial trust, all hold the same contract of indemnity, all have, in theory, paid the full rate for protection, and in the eyes of the law all are equal. Sub-conscious bias may make the adjuster favor the man of social status and wealth and the firm of

established reputation for honesty, and view with disfavor the expatriated product of Christian oppression in darkest Russia, but a professor of casuistry would be non-plussed for an explanation that would explain the waiver of the coinsurance clause in favor of the commercial light or bank director and reconcile the act with the doctrine of non-discrimination.

The adjuster whose intelligent investigation of the causes of fire leads to the removal of the hazard or its regulation will not go down in history as a public benefactor, but he is none the less a potent element in the economic warfare for the elimination of waste. The altruistic spirit which leads an adjuster to go outside the mere letter of his commission and labor for his employers in a field not distinctly his own, has not generally met with the response to which it is entitled, but nevertheless this spirit, and its application, operate in no uncertain way to the benefit of the public through the medium of rate concessions for bona-fide reductions of hazard.

In considering the moral hazard and its partial elimination as the result of careful adjustments, it is fair to assume that, except under conditions of specific and extreme distress, few men will exchange merchantable property for its immediate cash equivalent, freighted with the burden and cost of proving the amount. It follows, therefore, that no sane man will deliberately burn his property except in the hope of realizing an amount in excess of that which the property would produce if disposed of in ordinary or even extraordinary channels of business. To the so-called "liberal" adjustment may be charged many claims, incendiary in origin and fraudulent in presentation. The term "liberal" is a misnomer in this connection—rather should it be "loose." The Simon pure liberal adjustment is that in the course of which ambiguities are resolved in favor of the assured, mere technicalities waived, and the benefit of the doubt given the holder and not the writer of the insurance contract. The real liberal adjustment retains for the Companies and the adjuster the wholesome respect and friendship of the assured. On the other hand, the loose adjustment makes for gross contempt for the insurer, and often opens the door to dishonesty practiced upon the assured by his own representative in an attempt to participate in the spoils. Of prime importance, therefore, is it that adjustments should be fair and truly liberal. Loose adjustments lead only to crimes against the people and loss of surplus to the underwriters.

Cultivation of cordial relations with the police and prosecuting authorities of the territory to which the adjuster confines most of his activities is an absolute necessity to him who would attain to the highest position in his profession. While public officials are in theory supposed to listen to all complaints and sift the real from the fancied grievance, it is the fact that those complaints presented by persons known to be honest, reliable, and not vindictive, are at the very outset given full credence and earnest investigation. The adjuster who is known to the Public Prosecutor as one who will not attempt to use the criminal process as a means to avoid civil liability, and who can be relied upon as able to control his principals in this respect, is in possession of an asset of inestimable value, the acquisition of which has been at the expense of vast labor and infinite patience.

It may not be amiss to say here that I have always found the District Attorneys of this County merciful to all but persistent criminals. The letter of the law has almost always been subordinated to its spirit. Our Grand Juries exhibit the same sympathetic tendencies, and many times have in substance told the offender to go and sin no more. Not always, however, is the Scriptural injunction heeded; and I am reminded of a case within my charge a few years ago where the assured, after months of denial and evasion, broke down after three hours of examination in my office and confessed his crime, which I know now, but did not know then, involved arson as well as fraud. Through mental stress, the man had become almost a physical wreck; and with the tacit consent of the District Attorney's office, criminal action was not instituted, and his signed confession remained in my possession until, less than a year and a half later, he participated in one of the most celebrated highway robberies the City has ever known. The confession made to me was the means of effectually disposing of his plea of previous good character, and for eighteen years he is placed where Banks and Insurance Companies need not fear his activities.

ON THE RELATION OF THE ADJUSTER TO THE ASSURED.

It is not my intention to bore you with details on this particular subject, nor do I feel qualified to assume to tell you how losses should be adjusted, I am still a student in the profession, and doubt whether I will ever pose as a teacher. I do know, however—and must emphasize it to you—that the adjuster is the *one man*, representative of the fire insurance interests, who

is continually in contact with the assured; and the assured's opinion of those interests, and in particular of the Company or Companies represented by the adjuster, is largely and justifiably influenced by the character of the man to whom is delegated the adjustment of fire losses. I venture to say, and I challenge contradiction, that most of the legislation inimical to our interests has had its inception in the minds of policyholders who felt themselves outraged by dishonest or unfair or technical or unnecessarily protracted adjustments. I am credibly informed that today legislation is contemplated, if not impending, in one of our Southern States to do away with the iron safe clause. Should such a law become operative in one State, it will be well-nigh impossible to prevent its adoption in the others. The cause is directly traceable to lack of judgment and diplomacy in the adjustment of a fire loss.

There are many types of claimants, and for this reason alone versatility is an essential quality for the adjuster to possess. We have, I am glad to say, the strictly honest claimant who scorns to think or act improperly, and who, by the same token, when in error is hardest to deal with; we have the claimant, also honest at heart, who pads his claim solely because he has been taught, or has heard, that Insurance Companies never pay a claim as presented. In dealing with this latter class, I find the best policy to be one of extreme frankness. In many instances of this character I have returned an exaggerated schedule to the claimant, and subsequently received a revised one strictly in accordance with the facts. Immediate approval, and the claim passed for payment, our business has made at least one new friend. My memory reverts to an aged lawyer of this City, long retired, who suffered a slight fire loss to some old but rather valuable law books stored in an outbuilding attached to his home. Real value was naturally difficult of ascertainment, and in response to my inquiry, the assured stated that two hundred dollars would be a fair allowance. This impressed me as equitable, and the gentlemen was sent with a clerk into an adjoining room, there to execute proof of loss and receive payment. In a few minutes he returned to my office, visibly perturbed, asked for a word in private, and said that his loss was not two hundred dollars but that he had so stated believing that no Insurance Company ever paid a claim in full. His belief was founded on report only, as he had never before been interested, directly or indirectly, in a fire loss.

Allied with this type of claimant is the one who honestly but mistakenly believes his property worth greatly in excess of its actual value, as, for example, the manufacturing hatter who insists upon the marketability in the South of that part of his stock which consists of ancient derbies of the music-hall German comedian style, or the elderly lady who will not entertain the suggestion of depreciation on her home of the late General Grant or early Jesse James period type of architecture, and its "parlor" furnishings of horse-hair sofas and chairs, antimacassars, wax flowers under glass, and family albums. A keen sense of humor serves the adjuster well in cases of this kind.

Then there is the passively dishonest claimant of the type of the lumberman whose source of supply has become exhausted. What adjuster of wide and varied experience does not remember seeing, particularly in the northern Counties of Pennsylvania, the glaring signs prohibiting smoking placed everywhere in the lumber mill operating with full millpond, and big supply still on the stump? And with the lumber cut about exhausted, what adjuster is there who has not noticed the absence of signs in the mill and the popularity of cigarettes and pipes? What change had come over the spirit of the millowner's dream, and was the sure-to-come fire unwelcome? Of course there was no incendiaryism, unless mind had triumphed over matter; but the translation of old buildings and machinery into new money led to no tears of regret except those of the unlucky or unwise underwriter.

For the actively dishonest claimant—the incendiary or fraud, or both—I can conceive of no treatment too drastic for administration. For the welfare of all interests, every defense should be employed—every technicality availed of; in fact, this is the only use that should be made of technicalities.

Long years of experience have taught me to rely greatly on what for lack of a better title I shall call the "visualization of crime." To illustrate what I mean, let me for the moment present to you a cloak and suit manufacturer at the end of a bad season—a warm winter or a late spring, overstocked with unsold merchandise and staggered by returns of rejected goods, bank discount exhausted and creditors dunning incessantly, accounts receivable hypothecated and bank balance barely enough for the next payroll. F. or F.—fire or failure, or, not to discriminate, F. or M.—fire or mahulla, and he elects—fire. From the physical evidence obtainable after the fire—the unmistakable signs left by vapor ignition, or the less apparent ones resulting

from the use of chemicals, from the story told by the check book—rich only in unused checks, from the exaggerated profit ratio in the previous fiscal period resulting from the substitution of a padded inventory—from all these major indications and from many minor ones come the material for the "visualization of crime," the construction of the Frankenstein of fraud and arson, which, unfortunately, rarely results in total defeat of the claim and conviction of the criminal, although in most instances profit to him is eliminated by the logical results of the process.

In connection with the general subject of the relation of the adjuster to the assured, a word on the matter of appraisals may be opportune. The authors of the standard fire insurance policy did not intend the appraisal provision to be used by the Insurance Companies as a means of coercion or oppression. It follows, therefore, that except in instances of positive and radical difference with respect to the measure of loss sustained, a demand for an appraisal is requested as a means to an ulterior end, and as such is a perversion of the intent of that provision of the policy. Recognition of this situation led a few years ago to the mandatory addition in the policy of a clause allowing the selection of an umpire by the judiciary where the appraisers failed to agree upon one within a reasonable time.

Except where difference are radical or where it is used as a "stop order" in cases involving fraud, positive proof of which is lacking, an appraisal should be avoided by the adjuster and every honorable means used to amicably reconcile conflicting opinions.

ON THE RELATION OF THE ADJUSTER TO HIS PRINCIPAL.

On the part of the principal there must exist absolute confidence in the integrity and reasonable confidence in the ability of the adjuster. I have known, but happily have not been associated with, some offices where the adjuster was treated as a necessary evil, and accorded the welcome which might have been given the undertaker or executioner. Possibly recitals by the adjuster of minor incidentals of adjustments involving bad judgment, euphemistically described as "hard luck," may have been responsible for the treatment. In reporting, I find that a general outline of the cause and extent of the fire and of the final result of the adjustment comprises all of the information ordinarily required, although I note that in the current month our National

Board has become inoculated with the germ of loss classification, with its attendant detail.

I deprecate most strongly the employment of experts and lawyers in cases where the work they do should properly be performed by the adjuster; and on the other hand, no one is more quick to recognize than I am the necessity for their employment in cases where their services are essential to proper investigation and determination. The adjuster who cannot examine books of account, determine the value of and loss to ordinary machinery, who cannot keep himself in close touch with tendencies and trends of merchandising conditions, who cannot conduct ordinary examinations under oath, has no right to expect of his profession that it will yield him its maximum of reputation or remuneration. Per contra, the adjuster who by constant application and study can give the public, the assured, and the underwriters all of these services is by right entitled to equivalent recognition and to a status coordinate with that of his underwriting associates.

Genius in this day may be defined as the capacity of an able man for gathering about him men of greater ability in their specific spheres of useful effort. Fire insurance has been characterized more by aridity than by fertility of genius as thus defined, and today many of our Company officials are wasting valuable time in attempting economies which could be more profitably employed in promoting efficiency. Happily, there are some oases in the desert of managerial bourbonism, and the trite and homely, but applicable aphorism of "Saving at the spigot and wasting at the bung" may yet be forcibly modified by the economic saving grace of the law of the survival of the fittest.

There appear intermittently movements to reduce the cost of loss adjustments, generally by proposed reductions in adjusters' charges. I am inclined to believe that these movements have their inception in the minds of Company officials and managers whose early training has led them to the belief that all men are naturally honest, that claims are presented which closely approximate the actual loss, and that an adjustment bears a marked resemblance to the labor of a child making a picture out of a complete set of blocks. In other words, the result is always in hand, merely awaiting the moment for it to become an accomplished fact. Most of the blocks I have been handed in the past fifteen years resembled three sets mixed together and then half of the whole thrown away. The resulting picture, after cutting and trimming, would rival a cubist masterpiece.

Seriously speaking, I believe the ratio of adjustment cost to loss will continue to rise, and that the rise, instead of being detrimental, will be of distinct benefit to insurance interests. This increase in ratio will be of twofold nature, the major factor—loss-declining in volume, and the minor factor—cost-increasing with the introduction of the trained adjuster to supplant or succeed the untrained. Fire prevention by physical means has taken a long and broad step forward in the past few years. Fire prevention by moral means, inculcated by stress, if necessary, demands that adjustments be made by trained adjusters, educated to their calling, and not by unsuccessful merchants taught only in the schools of experience.

To the young member of this Society whose face tonight evidences the question he would ask, I answer by saying to him that the adjustment of fire losses offers a splendid field for progressive employment at fair remuneration, conditioned, however, on adequate mental, moral and physical aptitude for the work; but unless he loves it, and recognizes it as the only real human side of fire insurance, he had better continue imbibing wisdom from the male Minervas and solemn Solons who preside over the destinies of other branches of the business, in one or another of which he may find what today is popularly termed his "place in the Sun."

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